

## Message Text

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ORIGIN EB-07

INFO OCT-01 AF-08 ARA-06 EUR-12 EA-07 ISO-00 SSO-00 NSCE-00  
USIE-00 INRE-00 AGRE-00 CEA-01 CIAE-00 COME-00 DODE-00  
FRB-03 H-01 INR-07 INT-05 L-03 LAB-04 NSAE-00 NSC-05  
PA-01 AID-05 CIEP-01 SS-15 STR-04 ITC-01 TRSE-00  
PRS-01 SP-02 OMB-01 FEA-01 /102 R

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O R 222211Z DEC 76  
FM SECSTATE WASHDC  
TO AMEMBASSY LA PAZ IMMEDIATE  
INFO AMEMBASSY LONDON  
AMEMBASSY BANGKOK  
AMEMBASSY CANBERRA  
AMEMBASSY JAKARTA  
AMEMBASSY KINSHASA  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY LAGOS

C O N F I D E N T I A L STATE 309351

E.O. 11652: GDS

TAGS:

SUBJECT: BOLIVIAN OFFICIAL REACTION TO NEW ITC BUFFER  
STOCK FLOOR AND CEILING PRICES

REF: LA PAZ 3447

1. SUMMARY: U.S. POSITION AT THE OCTOBER AND DECEMBER TIN  
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COUNCIL MEETINGS, BASED ON EXTENSIVE REVIEW OF ECONOMICS  
OF THE TIN INDUSTRY, WAS TO RESIST INCREASES IN THE BUFFER  
STOCK FLOOR AND CEILING PRICE RANGE AS BEING UNJUSTIFIED  
ON ECONOMIC GROUNDS. FALLBACK POSITION ALLOWED U.S. DEL  
TO ACCEPT LIMITED PRICE INCREASE, BUT TO FORCE A VOTE ON  
ANY PRICE PROPOSAL NOT ACCEPTABLE TO U.S. END SUMMARY.

2. THE POSITION TAKEN BY THE USG AT THE DECEMBER ITC  
MEETING WAS BASED ON AN EXTENSIVE INTERNAL AND INTERDEPART-

MENTAL REVIEW OF PRODUCTION COST DATA, THE CURRENT SUPPLY/ DEMAND SITUATION, INFORMATION SUPPLIED BY THE POSTS AND DISCUSSIONS WITH INDUSTRY ADVISORS CONCERNING THE MARKET SITUATION IN 1977. THE CONCLUSION OF THESE DELIBERATIONS WAS THAT NO INCREASE WAS JUSTIFIED ON ECONOMIC GROUNDS. THIS CONCLUSION WAS SUPPORTED BY JAPAN AND THE FRG, AND WAS GENERALLY AGREED TO BY OTHER PRINCIPAL CONSUMERS.

3. FACTORS WHICH SUPPORTED THE US CONCLUSION ARE:

--THE FLOOR PRICE ALREADY HAD BEEN INCREASED BY 11 PERCENT AND THE CEILING BY 9 PERCENT IN 1976.

--71 PERCENT OF ALL TIN IS PRODUCED AT PRODUCTION COSTS BELOW OR WITHIN ONE PERCENT OF THE ITC FLOOR PRICE WHICH PREVAILED PRIOR TO THE MEETING.

--IF PRODUCTION COSTS ARE DEFLATED TO REFLECT THE AMOUNT OF TAX AND EXPORT SURCHARGE WHICH WOULD BE PAID AT THE OLD FLOOR PRICE INTERVENTION LEVEL (M\$1,065) RATHER THAN AT MARKET PRICES, 78 PERCENT OF ALL TIN IS PRODUCED AT PRODUCTION COSTS BELOW THE INTERVENTION LEVEL.

--IN ALMOST ALL PRODUCERS SUBMISSIONS, TAXES INCREASED MORE THAN OTHER PRODUCTION COSTS. THIS WOULD INDICATE THAT PRODUCER GOVERNMENTS, NOT THE MINING INDUSTRY, ARE THE TRUE RECIPIENTS OF PRICE INCREASES.

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--ACCORDING TO THE DATA SUBMITTED BY THE PRODUCERS, THE PRESENT MARKET PRICE SHOULD BE SUFFICIENTLY PROFITABLE TO JUSTIFY NEW INVESTMENT TO INCREASE CAPACITY. PRODUCTION HOWEVER, HAS DECREASED. THIS WOULD INDICATE THAT THE TIN MINING INDUSTRY IS NOT RESPONSIVE TO PRICE INCREASES AND MAY HAVE STRUCTURAL PROBLEMS (TAXES, GOVERNMENT LICENSING, ETC.) WHICH CAN BEST BE RESOLVED BY MEANS OTHER THAN PRICE ADJUSTMENTS;

--WHAT IS MISSING FROM THE PRODUCTION COST DATA IS THE CURRENT SUPPLY SITUATION FOR TIN. BECAUSE OF THIS, WE ARE UNABLE TO GUAGE WHETHER, FOLLOWING THE 1975-76 PERIOD OF EXPORT CONTROLS, THE OLD FLOOR PRICE SUFFICIENTLY ENCOURAGED PRODUCTION TO BRING NEW SUPPLIES OF TIN INTO THE MARKET.

4. A MAJOR PROBLEM WITH THE PRODUCTION DATA IS THAT THE TWO MOST EFFICIENT PRODUCERS, MALAYSIA AND THAILAND, WHOSE COMBINED PRODUCTION AMOUNTS TO APPROXIMATELY 51 PERCENT OF ALL TIN PRODUCED BY COUNCIL PRODUCER MEMBERS, USE DOMESTIC TAXATION TO INCREASE THEIR PRODUCTION COSTS TO LEVELS COMPARABLE TO THAT OF BOLIVIA AND AUSTRALIA, THE HIGH-COST PRODUCERS. THUS, MALAYSIAN PRODUCTION COSTS ON A WEIGHTED BASIS ARE M\$646 PER PIKUL EXCLUDING TAXES,

BUT ARE INCREASED TO M\$913 PER PIKUL WHEN TAXES ARE INCLUDED, AN INCREASE OF 41 PERCENT OVER THE UNTAXED PRODUCTION COST. THE SAME FIGURES FOR THAILAND ARE, RESPECTIVELY, M\$674 WITHOUT TAXES, M\$924 WITH TAXES, AN INCREASE OF

37 PERCENT. THIS TYPE OF TAXATION NOT ONLY SERVES TO INFLATE OVERALL PRODUCTION COSTS, BUT, SINCE IT DENIES REVENUE TO MALAYSIAN AND THAI MINERS, SERVES AS A DISINCENTIVE TO NEW INVESTMENT IN TIN MINING. AT THE ITC MEETING, THE PRODUCERS INSISTED THAT TAXES BE INCLUDED IN PRODUCTION COSTS, BUT REFUSED, ON GROUNDS OF SOVEREIGNTY TO DISCUSS THE EFFECTS OF TAXATION ON PRODUCTION AND PRICE. CONFIDENTIAL

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5. DESPITE THE ABOVE CONCLUSION, US WAS PREPARED AS A FALLBACK POSITION TO SUPPORT A FIVE PERCENT INCREASE IN FLOOR PRICE AND EIGHT PERCENT IN CEILING WHEN SEVERAL CONSUMERS (FRANCE, CANADA, NETHERLANDS) INDICATED THEY WERE PREPARED TO GRANT SUBSTANTIAL INCREASE RATHER THAN FACE PROTRACTED CONFRONTATION WITH PRODUCERS. THIS COMPROMISE PROPOSAL WOULD HAVE GIVEN PRODUCERS TOTAL INCREASE OF 17 PERCENT ON FLOOR AND EIGHTEEN PERCENT ON CEILING IN PERIOD OF NINE MONTHS, WHICH IS GENEROUS GIVEN THE EXISTING BOUYANT PRICES FOR TIN AND THE RELATIVE STAGNATION OF OTHER NON-FERROUS METALS.

6. THAT PRODUCERS REJECTED THE COMPROMISE PROPOSAL OUT OF HAND WITHOUT MAKING THEIR OWN COUNTER-PROPOSAL IS INDICATIVE OF THEIR INTRANSIGENT POSITION ON PRICES, AN ATTITUDE WHICH WE UNDERSTAND, WAS LARGELY A RESULT OF THE BOLIVIAN POSITION WITHIN THE PRODUCER CAUCUS, AS INFORMAL CONTACTS BEFORE THE ITC MEETING INDICATED THAT MALAYSIA AND INDONESIA WERE PREPARED TO ACCEPT A M DOLLAR 1075 FLOOR PRICE.

7. CARLOS ITURALLDE, WHILE IN WASHINGTON ON DECEMBER 15 TO TESTIFY ON GSP STATUS FOR TUNGSTEN, MET WITH EB OFFICER TO DISCUSS TIN AND TUNGSTEN. ITURALLDE WAS GIVEN THE BROAD BACKGROUND TO THE US POSITION AND SEEMED TO UNDERSTAND AND APPRECIATE THE US VIEW BETTER THAN HE DID IN THE EMOTIONALLY CHARGED ATMOSPHERE OF THE ITC MEETING. ITURALLDE RESPONDED THAT, WHILE HE EARNESTLY BELIEVED THAT BOLIVIAN PRODUCTION COSTS DO JUSTIFY A M\$1150 FLOOR PRICE, HE REALIZED THE PROBLEMS CONSUMERS HAVE WITH "WINDFALL PROFITS OF OTHER PRODUCERS AND THAT, IN A RECOGNITION OF THIS, HE WOULD HAVE ACCEPTED M\$1100 FLOOR PRICE. ITURALLDE ALSO COMMENTED THAT BOLIVIA PROBABLY WILL NOT RATIFY THE FIFTH ITA, AND WILL PROBABLY HOLD-OUT FOR IMMEDIATE RE-NEGOTIATION OF PRICES, CONSUMER CONTRIBUTIONS CONFIDENTIAL

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VOTING PROCEDURES AND EVENTUAL INDEXATION OF PRICE ADJUSTMENTS.

8. AT THEIR REQUEST, BOLIVIAN AMBASSADOR CRESPO AND MINISTER CARIAGA MET WITH OFFICERS OF EB/ISM ON DECEMBER 16 TO AGAIN DISCUSS BACKGROUND OF US POSITION. AMBASSADOR CRESPO SEEMED PARTICULARLY RESPONSIVE TO OUR ECONOMIC

ARGUMENTS AND MENTIONED THAT HE WOULD EXPLAIN OUR POSITION TO THE GOB WHEN HE VISITS LA PAZ THIS WEEK.

9. COMMENT: WE BELIEVE GOB WILL NOT RATIFY FIFTH ITA BY DECEMBER 31, THEREBY FORCING ITC TO CONVENE MEETING TO CONSIDER MATTER. THIS WILL ENABLE GOB TO UNDERSCORE ITS POSITION CONCERNING REVISION OF THE VOTING SYSTEM AND MANDATORY CONSUMER CONTRIBUTIONS AND WILL FORCE OTHER PRODUCERS TO ACKNOWLEDGE GOB'S LEADERSHIP POSITION WITHIN THE ITC PRODUCER CAUCUS. AT THE SAME TIME, HOWEVER, WE HOPE THAT GOB WILL RATIFY BY JUNE 30, 1977, ALLOWING THE AGREEMENT TO BECOME DEFINITIVE. THE BOLIVIANS KNOW THAT THE AGREEMENT IS SUBJECT TO REVIEW IN JANUARY 1979 WHEN THEY WILL BE ABLE TO RAISE THEIR OBJECTIONS TO THE EXISTING ARRANGEMENT. TO FORCE AN EARLIER NEGOTIATION BY NOT RATIFYING WOULD CLEARLY EXACERBATE BOLIVIAN RELATIONS WITH BOTH PRODUCERS AND CONSUMERS, MANY OF WHOM RESENTED: 1) BOLIVIA'S ATTEMPT AT DECEMBER MEETING TO USE THE THREAT OF NON-RATIFICATION TO COERCE CONSUMERS AND PRODUCERS ALIKE INTO ACCEPTING BOLIVIA'S PRICE PROPOSAL, AND 2) BOLIVIA'S BOYCOTT OF SUBSEQUENT PLENARY AND PRODUCER CAUCUS AND ITS UNWILLINGNESS TO PARTICIPATE IN ANY INITIATIVES TO REACH A COMPROMISE SOLUTION ON PRICE.

10. FYI: IN THE PAST CONSUMERS HAVE NOT BEEN AS COHESIVE AS PRODUCERS, AND PRODUCERS HAVE NORMALLY BEEN ABLE TO CAJOLE CONSUMERS INTO TAKING THE POSITION OF THE MOST LIBERAL CONSUMER. PRODUCERS WERE ABETTED IN THEIR EFFORTS BY ITC TRADITION WHICH CALLED FOR DECISIONS TO BE MADE BY CONFIDENTIAL

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CONSENSUS RATHER THAN BY VOTE (THUS REDUCING PROPORTIONAL VOTING TO ONE-MAN-ONE-VOTE). IN ANNOUNCING OUR WILLINGNESS TO ACCEPT A MALAYSIAN DOLLAR 1050/1300 COMPROMISE PROPOSAL, U.S. MADE IT CLEAR THAT THIS WAS THE LIMIT OF OUR FLEXIBILITY AND THAT, ON ECONOMIC GROUNDS, WE WOULD OPPOSE ANY HIGHER PRICE RANGE. ACCORDINGLY, WHEN THE FINAL PRICE RANGE OF MALAYSIAN DOLLAR 1075/1325 WAS REACHED, THE U.S. CALLED FOR A VOTE AND VOTED AGAINST THE COMPROMISE TO 1) REGISTER OUR DISAGREEMENT WITH THE FINAL PRICE RANGE; 2) TO PROTECT OUR POSITION WITH REGARD TO FUTURE PRICE DISCUSSIONS (OTHER CONSUMERS WILL KNOW THAT ONCE WE ADOPT A POSITION WE ARE PREPARED ACTIVELY TO DEFEND IT); AND 3) TO FIRMLY ESTABLISH THE PRECEDENT OF VOTING ON IMPORTANT

ISSUES WITHIN THE COUNCIL. THAT A COUNCIL MEMBER WAS PREPARED TO FORCE A VOTE ON AN IMPORTANT ISSUE, WILL, WE BELIEVE, DETER OTHER MEMBERS FROM TAKING EXTREME POSITIONS WITHIN THE COUNCIL. THUS THE ITC SHOULD FUNCTION MORE SMOOTHLY IN THE FUTURE. THIS VIEW IS SHARED BY OTHER CONSUMERS AND ITC EXECUTIVE CHAIRMAN LAI.

11. ANOTHER IMPORTANT CONSIDERATION IN OUR POLICY TOWARD ITC IS THE ROUND OF CONSULTATIONS AND NEGOTIATIONS WITHIN THE UNCTAD INTEGRATED PROGRAMME AND OTHER FORA--CIEC, TUNGSTEN, ETC. WHILE WE ARE COMMITTED TO PARTICIPATE IN THESE DELIBERATIONS, AND MAY EVENTUALLY JOIN SOME COMMODITY ARRANGEMENTS, IT IS IN OUR INTEREST TO CONVINCE LDC PRODUCERS THAT WE WILL NOT PARTICIPATE IN ARRANGEMENTS WE CONSIDER ECONOMICALLY UNSOUND. THESE SAME LDC PRODUCERS ARE CLOSELY WATCHING OUR ACTIVITIES WITHIN THE ITC TO ATTEMPT TO DETERMINE THE DIRECTION WE WILL TAKE IN OTHER AREAS. TO THE EXTENT WE BASE OUR POSITION IN THE ITC ON FIRM ECONOMIC GROUNDS, WE WILL MAKE OUR JOB LESS DIFFICULT IN OTHER FORA. END FYI.

12. EMBASSY MAY DRAW ON PARAGRAPHS 2-9 IN ITS DISCUSSIONS WITH GOB. DEPARTMENT WOULD APPRECIATE ANY INFORMATION  
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EMBASSY CAN OBTAIN ON BOLIVIAN POLICY RE RATIFICATION.  
ROBINSON

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